annual report 2003

special forces pension plan

mission statement

The Board will act solely in the interests of stakeholders to ensure that the Plan is operated in compliance with legislation and regulations and that the Plan's assets are managed effectively and efficiently in order to provide a sound financial future for the Plan's beneficiaries.

table of contents

Constable

William

(Bill) Basso

Constable William (Bill) Basso of the Lethbridge Regional Police Service has just completed 15 years of active service. He has spent his last 10 years in the Forensic Identification Section, where he has specialized in bloodstain pattern analysis, aiding both law enforcement and the justice system. In this area, Basso most enjoys applying scientific methods and principles to police investigations. For him, crime scene reconstruction and bloodstain pattern analysis is like putting together a jigsaw puzzle.

Until 1998, training in this field was only available in the U.S. Then the Edmonton Police Service, the Royal Canadian Mounted Police, and the Lethbridge Police Service formed a special partnership to create the Northwest Bloodstain Pattern Association. Basso became involved from the start and continues to instruct wherever opportunities present themselves. In 2002 his peers nominated him to be President of the International Association of Bloodstain Pattern Analysts, an organization with more than 600 members. He accepted the position in 2003 and still serves today.

The end of his career seems far away to Basso, who is looking forward to a comfortable mortgage-free retirement. He plans to stay in Lethbridge with family and friends and commit more time to hobbies, special interests and having fun.

highlights from 2003

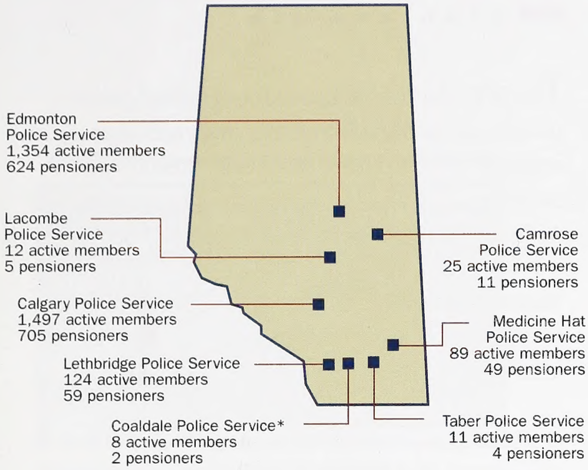
The pension fund rate of return for 2003 was 13.0%, exceeding the **policy benchmark** of 12.6%. Over a four-year time period, the Plan returned 2.7%, outperforming the policy benchmark return of 1.8% for that period. On an eight-year basis, the Plan returned 7.9% compared to the benchmark return of 7.8%.

policy benchmark:
A performance measure for the Fund that is derived from the long-term asset mix policy and the benchmark indices for each major asset class.

- In spite of better investment returns in 2003, the Plan's unfunded liability increased to $240 million from $204 million at December 31, 2002. The unfunded liability has increased because under the "asset-smoothing" strategy employed by the Board, the Plan recognizes gains and losses over a three-year period. This means that most of the recent investment losses have now been recognized, and two-thirds of the investment gains of 2003 will be recognized over the next two years.

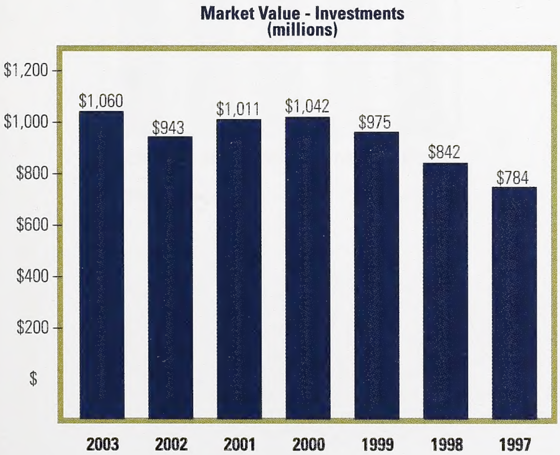
- The Plan's total expenses for 2003, including administration costs, investment management and custodial fees, averaged $267 per member, compared to $230 per member in 2002. The increase reflects higher APA Corporation operating costs.

- In 2003 the number of SFPP members (active, deferred and held-on-deposit) increased 3% from 2002 to 3,120. The number of SFPP pensioners increased 5.5% to 1,459.



The Coaldale Police Service amalgamated with the Lethbridge Police Service to become the Lethbridge Regional Police Service effective February 1, 2004.

- Payments from SFPP totaled $47.2 million, versus contributions received of $42.2 million.
- At December 31, 2003, the Plan's investment portfolio totaled $1.06 billion, up $117 million from $943 million at the end of the previous year.



Constable Gordon Stull of the Medicine Hat Police Service has been a police officer since 1990. A K-9 member since 1997, he is a qualified court expert in human scent K-9 tracking. His favourite thing about his job is working with others to make Medicine Hat a better place to live.

Constable Gordon Stull

Stull is an able leader. He initiated the first national K-9 conference, which is becoming an annual event. His goal was to have the Canadian Police K-9 community grow and lead nationally and internationally. He shares credit for the conference's success to date with fellow K-9 members and many volunteers.

Family is important to Stull, who puts his own first and allows others to do the same. In addition to training and teaching karate at a local club, he started a police station karate club for service members and their families.

Going forward, Stull hopes to take his leadership abilities and innovative ideas into different areas. After thirteen years of wearing a uniform, he wants to try plainclothes investigational work. In retirement, he'd like to know he made a positive difference to people, maintained a balance and did not compromise his family to achieve personal goals.

Staff

Sergeant

Rick Milne

After 27 years with the Edmonton Police Service, Staff Sergeant Rick Milne is still having fun. He most enjoys working with a small group of dedicated people who are passionate about making their community safer.

Over the years, Milne has worked in Forensic Identification, Vice, Drugs, Special Investigations and Photo Enforcement/Breath Testing. Today, he runs the Canine/Flight Operations Section, which supports frontline patrol members using police dogs and the "Air-1" helicopter.

Air-1 is Milne's greatest career achievement to date. In 1995, he began researching whether Edmonton should have a police helicopter. He wrote numerous business plans and reports. Viewed with scepticism at first, he and a small group of supporters persevered and continued to advocate for the idea. He thanks his supportive community and his progressive chief who was willing to take a risk.

For now, Milne will continue in his current position, expanding the Canine Unit and developing a long-term training/succession plan for the entire Flight Operations section. At retirement, he clearly pictures himself with his wife, an oceanfront lot on a Southern Gulf island, a sailboat, a log house, a small business venture, and a secure pension.

plan profile

The SFPP, "the Plan", is a contributory defined benefit pension plan serving police officers, chiefs and deputy chiefs employed by local police authorities in Alberta. As of December 31, 2003, the Plan served eight employers and 4,579 members and pensioners throughout Alberta.

Funding sources for the Plan include member and employer contributions and investment earnings, with contribution rates set at the amount required to fully fund the Plan.

The Minister of Finance holds assets of the Plan in trust for the sole benefit of Plan beneficiaries and is responsible for the administration of the Plan.

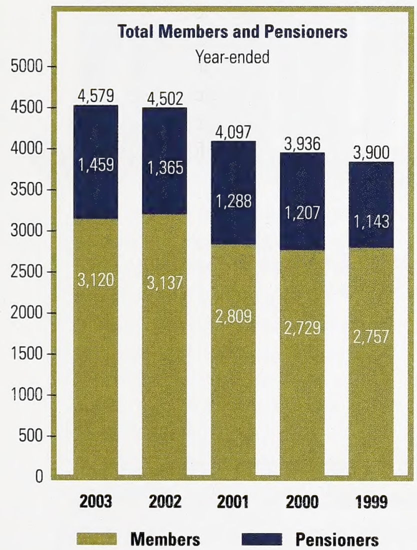
funding sources:
The money needed to ensure the Plan is funded comes from four sources: member contributions, employer contributions, investment earnings and the Government of Alberta contribution towards paying off the pre-1992 unfunded liability.

In 2003, about 25% of the Plan's income came from member, employer and Government contributions, and about 75% came from returns on investments.

Monthly dollar amounts paid in pensions in 2003

	Pensioners
$1 - $999	33
$1,000 - $1,999	236
$2,000 - $2,999	778
$3,000 - $3,999	313
$4,000 and over	72
Total	1,432

*This table does not include benefits paid to pension partners.



During his 14 years of service, Senior Constable Sean P.J. Lynn of the Calgary Police Service has worked in several areas of the City, and has also been a member of the Public Order Unit. He has worked closely with a youth group home, and worked on peer support issues, all inspired by a passion for dealing with people and a desire to make a difference.

Senior Constable Sean P.J. Lynn

He has also helped to encourage positive role models in his community and beyond. Through his work on an annual men's conference and via appearances on international television programs, he helps men focus on achieving healthy family lives. At home, he cheers on his "squad" of seven children in all their endeavours.

Lynn has a special interest in advancing pensioner issues. When all his important community work is done and he becomes a pensioner himself, Lynn plans to drive throughout North America in a trailer with his wife and children, watching his oldest son play professional football.

the board mandate

A seven-member Board, including three employee nominees, three employer nominees and one Crown nominee, oversees the management of the Plan and carries out a number of legislated responsibilities, including:

- arranging for actuarial valuations;
- setting contribution rates to ensure the Plan is properly funded;
- granting post-1991 cost of living adjustments when indexing fund assets are sufficient;
- developing general policy guidelines on the investment and management of Plan assets and Plan administration;
- making appropriate recommendations for amending Plan rules; and
- reviewing administration decisions.

2003 Board Members, left to right:
David Watson; Ulysses Currie; Alex Girvin; Randy Garvey, Chair; John Hamill; Linda Sinclair; Colin Catonio, Vice Chair; Janet Julé, Investment Advisor; Liz Doughty, Recording Secretary; Jim Millard, Board Secretary

message from the board

This past year, the Board focused on ensuring that the Plan and its assets were managed prudently and efficiently so that we can continue to deliver benefits as promised to our members. This has meant spending time on efforts to improve administration and enhance member communications, while taking on new initiatives in the areas of governance, Plan funding and investment strategies.

Capital markets turned around in 2003, allowing pension plans to make up some ground lost in the previous three years. The SFPP pension fund earned a positive 13.0% rate of return for the year. We are cautiously optimistic that investment markets will continue to recover slowly in 2004.

In spite of better investment returns in 2003, the Plan's **unfunded liability** increased to $240 million from $204 million at December 31, 2002. The unfunded liability has increased because under the **asset-smoothing** strategy employed by the Board, the Plan recognizes gains and losses over a three-year period. This means that most of the recent investment losses have now been recognized, and two-thirds of the investment gains of 2003 will be recognized over the next two years.

The Board will continue to carefully monitor Plan funding with a goal of keeping contribution rates as reasonable and stable as possible; however, it will recommend further contribution rate increases if doing so is necessary to secure the funding of the Plan over the long term. In 2004, the Board will undertake an asset liability study to assist us in better understanding our liabilities and to help us develop an optimal investment policy.

The Board continues to look for ways to improve and enhance the way we carry out our responsibilities. In 2004, we will conduct a governance self-assessment, following guidelines set by the Canadian Association of Pension Supervisory Authorities. We have asked the Auditor General to review and comment on the self-assessment.

Employers can now access the new Web-based pension administration system and use the system to update information online. Our Web site, www.sfpp.ca, continues to provide a convenient way for members and employers to stay current on the pension plan. Making sure members have easy access to information about the Plan is a priority.

Today's SFP Board recognizes the challenges we face for 2004 and onwards. In response, we will look to make effective strategic management and investment decisions, working to protect the pension promise both in the short and long terms.

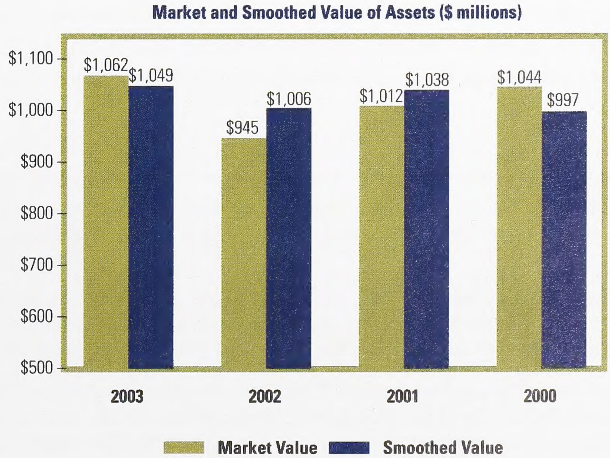
We look forward to continuing to serve the Special Forces Pension Plan and its members. If you have any questions about the Plan or the information in this annual report, contact information for the Board is listed at the end of this report.

unfunded liability:
This is the amount by which the liabilities of the Plan exceed Plan assets at a given date. The Plan's actuary determines the expected pension, death, termination and other benefit payments that will be made in future to all pensioners, active and deferred members and beneficiaries based on pensionable service and salary earned to a given date. The present value of these earned benefit payments is then established to determine the Plan's total liabilities.

The SFPP's total liabilities are then compared to the value of the Plan's assets as of the same date. If the total Plan liabilities exceed the Plan assets, the Plan has an unfunded liability.

asset-smoothing:
Investment returns are a key element in setting the contribution rates needed to fund SFPP benefits. As returns can vary substantially from year to year, the Board employs an "asset-smoothing" technique to soften the effect of short-term market volatility and to help keep contribution rates as stable as possible. Asset-smoothing is an accepted practice in valuing pension plans. Under the asset-smoothing strategy employed by the Board, the Plan recognizes gains and losses over a three-year period.

Market and Smoothed Value of Assets ($ millions)



management's discussion and analysis

overview

This Management's Discussion and Analysis (MD&A), together with the SFPP financial statements, provides an overview of initiatives and achievements during the past year as well as the outlook for developments in 2004 and beyond.

In her role as Plan administrator, the Minister of Finance is aided by three bodies with legislated or delegated responsibilities:

- The Special Forces Pension Board, which arranges for actuarial valuations, sets contribution rates and establishes general policy guidelines on investment management and Plan administration;
- Alberta Pensions Administration (APA) Corporation, which administers the Plan in accordance with the Plan rules and legislation; and
- Alberta Investment Management, the investment operation of Alberta Revenue (IMD), which invests the Plan's assets in accordance with legislation and the investment policy guidelines established by the Board.

review of 2003

plan funding

Legislation requires that an actuarial valuation of the Plan be conducted at least every three years to determine whether the Plan has sufficient assets to pay promised future benefits. The last Plan valuation was performed as at December 31, 2001. For the purposes of the 2003 financial statements, the Board obtained an extrapolation projecting the results of this valuation to December 31, 2003. The Board will obtain further information in 2004 to assess whether there are any funding issues that should be addressed.

cost-of-living adjustment

Effective January 1, 2004, pensioners received a cost-of-living adjustment (COLA) of 3.42% on benefits for service up to December 1998. Persons retiring during the year received a prorated COLA. Assets accumulated in the indexing fund were not sufficient to allow for a COLA on benefits for service after 1998.

contribution rates

The Board increased contribution rates for employees and employers by 1.31% effective January 1, 2003, in response to previous years' investment losses and increased Plan costs due to changing member demographics and the trend toward earlier retirements. The 2003 contribution rate increase was the first since 1994.

Based on extrapolated results as at December 31, 2003, the current contributions into the Plan are not sufficient to sustain all promised benefits. Unless the markets produce relatively high returns in 2004, a contribution rate increase will almost certainly be required in 2005 or 2006. The Board is looking at the situation carefully and will make any necessary adjustments to member and employer contribution rates.

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actuarial valuation: The Plan uses a valuation to project the benefit costs and compare them to the assets plus future contributions. The funding valuation informs the Board whether, at a particular point in time, the Plan is fully funded and has enough money to cover the cost of future benefits promised to all current Plan members. The Board hires an independent actuary to perform the actuarial valuation.

contribution rates: Effective January 1, 2003, active members pay contributions at the rate of 10.01%* of pensionable salary. The employer pays contributions at the rate of 11.11% of pensionable salary. The Alberta Government contributes 1.25% of salary toward the pension plan's past unfunded liabilities.
** 8.05% regular contributions PLUS 0.75% towards pre-1992 unfunded liability PLUS 0.75% to fund future COLA, plus 0.46% for post-1991 unfunded liability.*

will contribution rates be increased again? It is possible that the Plan will face future contribution rate increases. The amount and timing will depend largely on future investment returns and somewhat on changes in membership demographics. The last contribution rate increase was based on an actuarial valuation as at December 31, 2001. The next valuation must be performed no later than December 31, 2004. However, the Board monitors the funded position at least annually and may, if deemed prudent, request an earlier valuation.

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plan changes

In 2003, the following changes to the pension plan were made:

- Members who are age 65 or older when they terminate from employment are automatically vested.
- Coordination is no longer available with disability pensions or pre-retirement survivor pensions.
- Coordination is no longer available where the post-65 benefit is less than a specified dollar amount.
- Members can now coordinate joint life pensions.
- Coordination is now based only on the member's lifetime. The amount of the pension paid to a surviving pension partner after the member's death will no longer be affected by the member's decision to choose a coordinated pension option.
- The dollar amount of the coordination supplement available up to age 65 has been modified to reduce the severity of the combined coordination and bridge benefit decreases that commence at age 65.
- The rules for division and distribution of pension benefits on marriage breakdown have been changed to comply with Employment Pension Plans Act requirements.
- The requirement that application to transfer into the SFPP be made within one year of commencing participation was removed.
- Legislation was changed in 2003 to remove the requirement of the SFPP to fund on a solvency basis. The Board's view is that solvency adds to contribution rate instability and is not needed for public sector plans because they are not likely to terminate.

communications

The following important communication initiatives took place in 2003:

- The 2002 Annual Report was posted to the Web site and distributed to members in April.
- Individual Member Annual Statements were distributed.
- A newsletter for members and pensioners came out in December.
- The Board surveyed members and pensioners for their views on the coordinated pension option.
- The Plan Web site, www.sfpp.ca, was updated on a regular basis.
- The Board provided information sessions throughout Alberta about the Plan.
- APA Corporation conducted six employee seminars for 144 Plan members.

plan administration

introduction

Alberta Pensions Administration (APA) Corporation provides administrative services to SFPP under a contract with the administrator of the Plan, the Minister of Finance. The Corporation's core business is to provide benefit administration for pension plan members, employers and pensioners by paying pension benefits, collecting pension plan contributions, maintaining membership records and providing information to members, pensioners and employers. The Corporation also provides support services to the pension boards.

technology

Ensuring the provision of accurate and timely pension payments and information for the SFPP's members is a primary objective of the Board. Technology is increasingly driving pension services. A new pension administration system was implemented for the SFPP in 2003 with the support of the Board. Based on advanced technology systems and a Web-based infrastructure, the new pension administration system will enable APA Corporation to provide enhanced, accurate, and timely information to Plan members and employers.

APA Corporation also implemented employer online services. This Web-based interface allows employers to submit data and interact with the Corporation electronically. Employer online services will be enhanced in 2004.

coordination option Allows those retiring before age 65 to supplement basic pension benefits with temporary payments from SFPP. At age 65, the pension benefit is reduced to reflect pre-65 coordination and remains at the reduced level for the remainder of the retiree's lifetime.

member service costs

APA Corporation's costs are distributed among the public sector pension plans it serves. SFPP per member administration costs are based on a cost share formula which allocates APA Corporation operating costs according to pension plan membership (active and deferred members and pensioners.)

Total Plan operating costs rose in 2003, increasing SFPP per member costs by 16%. This increase is due to the following factors:

- cost share formula changes;
- increased work volumes, new pension administration system stabilization and amortization of system project costs; and
- inflationary pressures.

The Board has advised APA Corporation that it views cost-effective administration services as a priority and will be working with APA Corporation to review the cost allocation methodology. The Board will monitor Plan expenses carefully in 2004.

For further information on APA Corporation activities for 2003, please go to the APA Corporation Web site at www.apaco.ab.ca .

Cost/Member	2003 Actual	2002 Actual
APA Corporation Net Operating Costs including Process Improvements	$138	$96
New Pension Administration System	$34	$42
Board and Plan Specific Costs	$46	$50
Total Plan Operating Costs*	$218	$188

* Total administration expenses amounted to $267 per member in 2003 and $230 per member in 2002 with the inclusion of investment management costs. Investment management costs paid to Alberta Revenue do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income.

investments

statement of investment policies and goals

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's Statement of Investment Policies and Goals (SIP&G). The SIP&G is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

board activities

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the SIP&G annually, the Board also evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

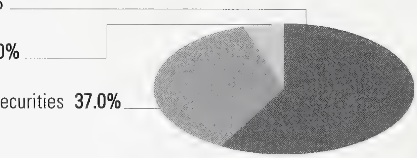
The Board was also looking to the future in 2003. The Board attended a fall education seminar, which focused on governance issues, benefit and demographic trends, alternative investments and studying the interaction between the Plan's assets and liabilities for investment policy setting. The Board has set a number of priorities based on the seminar. Action has already been taken in the alternative investment area, with the Board reviewing and committing to a small investment in income-oriented private securities. Further study of the opportunities and risks associated with private income securities and other non-traditional investments is scheduled for 2004.

In 2004 the Board will conduct an asset liability modeling study. The study will help identify the best asset mix for the Plan, taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. The Board will then review fund objectives, taking into consideration the study's recommendations, and will make any appropriate changes to the SIP&G.

asset mix

The SFPP policy asset allocation is structured to capture the historically higher rates of return from equities. The asset mix is weighted more to equities at 63%, including 5% to real estate, with 37% allocated to fixed income. The Board has reviewed the Plan's investment policies with a focus on assessing the risk tolerance of the Plan and ways to manage the inherent volatility of the long-term asset mix.

2003 Asset Mix Policy



IMD manages the majority of SFPP's investments internally. However, in order to achieve greater diversification, a majority of equity investments are managed externally by third-party investment managers selected and managed by IMD.

The Income Tax Act restricts the direct ownership of foreign investments to 30% of pension Fund assets. In order to optimize the Plan's asset mix and remain in compliance with the tax act, additional exposure to foreign assets is gained through forwards, futures and swap contracts.

The table to the right shows the target policy asset mix for the Fund. In 2004, this target asset mix will reflect a commitment of 1.0% to private income securities. Private income securities were added to the policy asset mix in 2003. Private income securities are a relatively illiquid asset class requiring time to build and exit investments. The commitments to this asset class will be funded from U.S. public equities as investments are made.

	Policy Asset Mix			Actual Asset Mix	
	Target	2003	2002	2003	2002
Fixed Income					
Cash and Short Term	1.0%	1.0%	1.0%	0.6%	0.6%
Long Term	36.0%	36.0%	36.0%	34.2%	36.2%
Total	37.0%	37.0%	37.0%	34.8%	36.8%
Public Equities					
Canadian	20.0%	20.0%	20.0%	21.1%	20.0%
United States	18.0%	19.0%	19.0%	18.5%	18.4%
Non North American	19.0%	19.0%	19.0%	20.4%	19.3%
Real Estate	5.0%	5.0%	5.0%	5.0%	5.3%
Private Equities	-	-	-	0.2%	0.2%
Private Income	1.0%	-	-	-	-
Total	63.0%	63.0%	63.0%	65.2%	63.2%

Private income securities are structured to provide high current income. These investment opportunities could include infrastructure projects, bridge loans and corporate finance arrangements with high current income.

Private equities investment includes all forms of private placement investing; i.e., venture capital and merchant banking. Venture capital investments include early-stage financings and in some cases financing start-up companies. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financing, project financing and leverage reductions.

asset liability modeling study: The asset liability modeling (ALM) study will assist the Board in making changes to the asset mix policy to maximize the probability that SFPP's assets, together with future contributions, will be sufficient to meet the expected future liabilities.

asset mix: Asset mix is the allocation of the Plan's investment portfolio between asset classes such as equities, fixed income and real estate. It is a key component of the Plan's investment policy. Establishing an asset mix that strikes the right balance between return and risk is critical to the Plan achieving optimal investment performance. In recent years, pension plans have begun to recognize that it is also important to understand the nature of the Plan's liabilities, and how various asset classes move in relation to those liabilities, in establishing an optimal asset mix.

investment overview

The SFP Board oversees the investment services provided to the Plan by IMD. Services provided by IMD, charges for those services and performance standards are set out in the Memorandum of Understanding between IMD and the Board.

The long-term investment expectation assumed for the Plan is 3.75% above the annual rate of inflation (as measured by the Consumer Price Index). With long-run inflation currently assumed at 3.25%, the required long-term average annual return is therefore 7.0%.

Most equity markets around the world saw a strong recovery in 2003. However, the relative strengthening of the Canadian dollar in 2003 restricted returns on U.S. and non-North American investments when expressed in Canadian dollars. A currency hedge of 2% of the total portfolio mitigated the effect of the weakening U.S. dollar on U.S. equity investments.

investment results in relation to benchmarks

The investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks that have been established in the SIP&G. SFPP's investment policy benchmark, used to measure overall Fund performance, is based on the long-term asset mix weightings of a portfolio invested in the following capital market indexes: *ScotiaCapital 91-Day T-Bill Index, ScotiaCapital Universe Bond Index, S&P/TSX Capped Composite Index, Nesbitt Burns Small Cap Index, S&P 500 Index, Russell 2500 Index, MSCI EAFE Index, and IPD All Property Index.* IMD's performance is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns.

The following table illustrates SFPP's return over various time periods compared to relevant indices.

	Annual Returns				Annualized Returns				
	2003 %	2002 %	2001 %	2000 %	1yr %	2yr %	3yr %	4yr %	8yr %
Total Fund	13.0	-5.9	-2.6	7.4	13.0	3.1	1.2	2.7	7.9
Policy Return	12.6	-6.9	-3.4	6.1	12.6	2.4	0.4	1.8	7.8
Consumer Price Index	2.0	4.3	0.7	3.2	2.0	2.9	2.2	2.5	2.0
Short-term fixed income	3.1	2.8	4.9	5.8	3.1	3.0	3.6	4.1	4.7
SC 91 Day T-Bill Index	2.9	2.5	4.7	5.5	2.9	2.7	3.4	3.9	4.2
Fixed Income	7.6	9.5	8.6	10.9	7.6	8.5	8.6	9.1	8.3
SC Universe Bond Index	6.7	8.7	8.1	10.2	6.7	7.7	7.8	8.4	7.9
Canadian Equities	26.3	-10.8	-7.7	16.9	26.3	6.1	1.3	5.0	10.6
Canadian Equity Index (1)	28.7	-12.7	-12.2	7.4	28.7	6.0	-0.4	1.5	9.2
United States Equities	8.3	-22.4	-6.7	-4.7	8.3	-8.3	-7.8	-7.0	6.0
US Equity Index (2)	7.4	-23.1	-6.4	-5.8	7.4	-9.1	-8.2	-7.6	6.9
Non-North American Equities	14.3	-15.9	-16.4	-13.4	14.3	-2.0	-7.1	-8.7	5.3
MSCI EAFE Index	13.4	-16.8	-16.5	-11.2	13.4	-2.9	-7.7	-8.6	2.6
Total Foreign Equity	11.3	-19.0	-11.6	-9.3	11.3	-5.1	-7.3	-7.8	5.4
Foreign Equity Index (3)	10.4	-19.9	-11.5	-8.8	10.4	-6.0	-7.8	-8.1	5.6
Real Estate	10.0	6.2	8.0	7.2	10.0	8.1	8.0	7.8	9.7
Real Estate Index (4)	8.1	8.6	10.3	11.8	8.1	8.3	9.0	9.7	11.3

(1) As of June 1, 2002, changes from 100% S&P/TSX Capped Composite to 87.5% S&P/TSX capped composite and 12.5% Nesbitt Burns Small Caps Index
(2) As of June 1, 2002, changed from 100%S&P 500 Index to 84.2% S&P Index and 15.8% Russell 2500 Index.
(3) 50% US Equity Index and 50% MSCI EAFE Index.
(4) Changed to IPD All Property Index from the Russell Canadian Property Index (RCPI) effective January 1, 2003 due to discontinuance of the RCPI.

long-term investment expectation: The Board's expected minimum return is 7.0%, given the asset mix policy and trends in capital markets, and is consistent with the level of investment risk that the Fund could assume in order to meet the pension obligations of the Plan. This investment goal is long-term in nature and is normally assessed over long time periods; i.e., over 10 years or more.

In 2003, the Plan recorded a positive return of 13.0% compared to the policy benchmark of 12.6%. On a four-year rolling basis the Plan returned 2.7%, outperforming the policy benchmark return of 1.8% over the same period. On an eight-year basis the Plan returned 7.9%, compared to the benchmark return of 7.8%.

Relative to the policy benchmark, the actual portfolio added 40 basis points (0.40%) of value in 2003. The outperformance can be attributed to asset allocation (e.g. Canadian equities versus Canadian fixed income) and product performance (e.g. Canadian active equity product versus S&P/TSX Composite index).

The table to the right shows the value added in 2003 by IMD in comparison to the various components of the policy benchmark.

Value Added / Lost by Manager in Comparison to Benchmarks	One Year	Four Years
Short-term Fixed Income	0.2%	0.2%
Fixed Income	0.9%	0.7%
Canadian Equity	-2.4%	3.5%
US Equity	0.9%	0.6%
Non-North American Equity	0.9%	-0.1%
Real Estate	1.9%	-1.9%
Total Manager Value Added	0.4%	0.9%

fixed income investments

IMD internally manages the fixed income component totaling $369 million, which includes allocations to bonds, mortgages and cash.

Overall, the Plan's fixed income allocation outperformed the respective benchmarks. Bonds returned 7.6% versus the ScotiaCapital Universe Bond Index return of 6.7%. The cash and short-term component had a return of 3.1%, exceeding the 2.9% return of the Scotia Capital 91-Day T-bill Index.

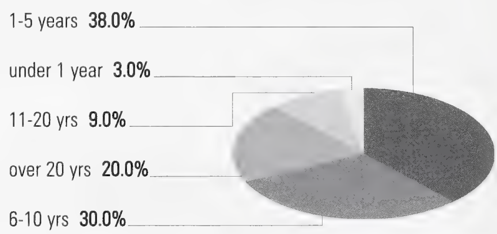
The average market yield for SFPP's fixed income securities at year-end was 4.79% (5.10% in 2002). The fixed income term to maturity profile at December 31, 2003 is illustrated in the chart to the right.

Over the past year, bond prices were supported by an accommodative U.S. monetary policy. In the U.S., the Federal Reserve cut rates 25 basis points in the 1st quarter and opted to leave the overnight rate at 1.0% over the remainder of the year. The Bank of Canada increased rates 25 basis points in both the 1st and 2nd quarter on inflation concerns. However, Canadian rates reversed course with a 50 basis point cut in the 3rd quarter as the rising Canadian dollar put pressure on exports. Corporate bond prices increased over the last six months as corporate profits improved.

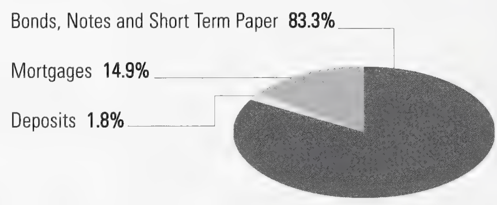
value added: The extra portfolio return achieved through active management that is different from a passive benchmark.

Through active management, an investment manager attempts to achieve portfolio returns greater than a specific index while controlling risk, either by forecasting broad market trends or by identifying mispriced sectors of a market or securities in a market. Alternatively, through passive management, an investment manager buys or invests in a portfolio that represents a market index without attempting to search out mispriced sectors or securities.

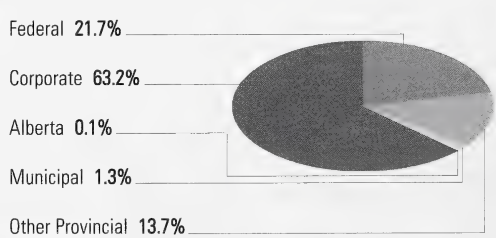
Summary of Fixed Income Holdings (team structure)



Summary of Fixed Income Holdings (by security type)



Summary of Fixed Income Holdings (issued and guaranteed by)



equity investments

Canadian equity markets posted double-digit gains in 2003 following two years of losses. Smaller capitalization companies, as represented by the Nesbitt Burns Small Cap Index, outpaced the larger cap S&P/TSX Capped Composite Index (42.7% vs. 26.7%). The large cap market was led by Information Technology (67.1%), as these stocks rallied from low levels in 2002. The small cap market leadership was fairly narrow with Materials (62.0%), which benefited from higher commodity prices, leading other sectors.

Equity markets were also strong outside of Canada. The U.S. large cap S&P 500 Index posted an increase of 28.7% (USD) in 2003, following three years of losses. From a Canadian perspective, the weakening of the U.S. dollar dramatically dampened returns to 5.3% when converted to Canadian dollars. Similar to the Canadian equity market, Information Technology led the large cap index.

In addition, small and mid cap stocks led the larger cap names as the Russell 2500 returned 19.0% in Canadian dollars (42.3% USD). The weakening of the U.S. dollar relative to the Canadian dollar was mitigated somewhat by a U.S. currency hedge of 2% of the total Fund.

Outside of North America, equity market gains were also strong, with the companies represented by the MSCI Europe, Australasia and Far East (EAFE) Index up 20.3% in local currency terms. Currency movements had a negative impact, pulling the Canadian dollar investors result down to 13.4%. The double-digit result was, nonetheless, welcome following three years of losses for the index. Even Japan (11.2%) generated a positive return for the first time since 1999.

The following tables show the top 10 securities held in the Canadian, U.S. and Non-North American equity markets.

Top 10 Canadian Equity Holdings December 31, 2003 Company	%
Royal Bank of Canada	4.6
Bank of Nova Scotia	4.2
Toronto Dominion Bank	3.5
Encana	3.0
Petro Canada	3.0
Bank of Montreal	2.9
Alcan Inc.	2.9
BCE Inc.	2.8
Sun Life Financial Services	2.5
Canadian Imperial Bank of Commerce	2.3

Top 10 U.S. Equity Holdings December 31, 2003 Company	%
Microsoft Inc.	2.3
Pfizer Inc.	2.3
General Electric Co.	2.2
Citigroup Inc.	2.0
Exxon Mobil Corp.	1.8
Wal-Mart Stores	1.5
Intel Corp.	1.5
American International Group Inc.	1.4
Cisco Systems Inc.	1.4
Johnson & Johnson	1.2

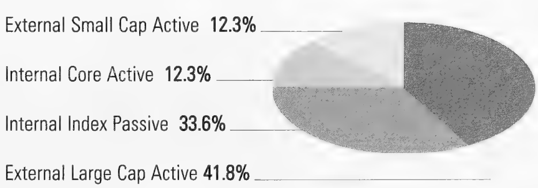
Top 10 Non-North American Equity Holdings December 31, 2003 Company	%
Vodafone Group	2.3
Total SA	2.0
Nestle SA	1.8
BP PLC	1.6
UBS AG	1.4
Novartis AG	1.3
Glaxosmithkline	1.2
ENI	1.1
Aventis SA	1.1
Credit Suisse Grp.	1.0

canadian public equities

The Plan's $225 million investment in Canadian equities encompasses several strategies, including both indexed (33.6%) and active (66.4%) mandates. IMD manages the enhanced index and core active management strategies internally. External investment advisors manage the large cap active strategy and the small cap active strategy.

The total Canadian equity return was 26.3% versus 28.7% for the customized Canadian equity benchmark. The negative value added was primarily as a result of the Canadian small cap product underperforming the NBSCI small cap index due to an underweight position in materials, in particular junior golds. Additionally, the Canadian large cap product underperformed due to an underweight position in information technology and an overweight position in healthcare.

Summary of Canadian Equity Holdings



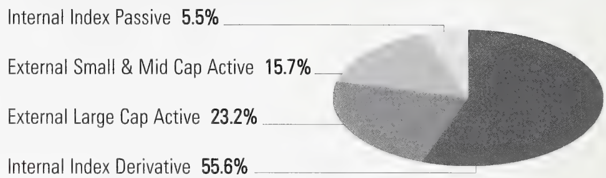
foreign public equities

The foreign equity portfolio is divided into allocations to the U.S. and to non-North American equity markets. Within the non-North American segment, mandates are either regional, where the manager invests solely within the region (e.g. Europe), or multi-regional, where the manager may invest across the different regions (e.g. Europe, Australasia and Far East).

u.s. public equities

At December 31, 2003, SFPP's $197 million in U.S. investments were allocated 61.1% to passive index strategies and 38.9% to active strategies. For 2003, the Plan's U.S. equity exposure returned 8.3%, outperforming the U.S. equity benchmark return of 7.4% (in Canadian dollars). U.S. equity outperformance was primarily due to the U.S. structured equity product outperforming its S&P 500 benchmark and the Canadian/U.S. dollar currency hedge.

Summary of United States Equity Holdings

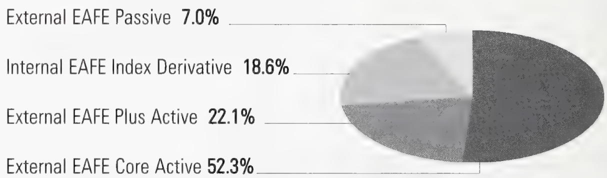


non-north american equities

The non-North American equity component totaling $216 million includes exposure to both developed and, on an opportunistic basis, emerging markets. At December 31, 2003, index-based strategies comprised 25.6% of the non-North American portfolio. The derivative product is used to manage the Fund's exposure to foreign equity relative to the Federal Income Tax Act limits. The remaining exposure, 74.4%, is allocated to external active managers.

The Plan's non-North American equity exposure returned 14.3% in 2003 while the Morgan Stanley Capital International Europe Australasia Far East (MSCI EAFE) Index returned 13.4%, in Canadian dollars.

Summary of non-North American Equity Holdings

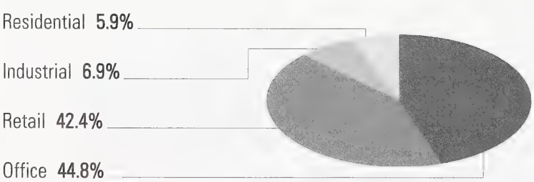


real estate

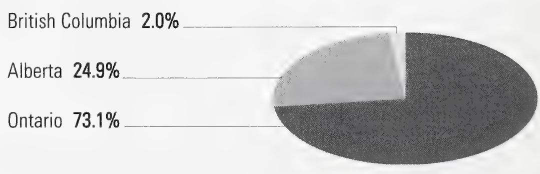
The Plan's real estate investments, totaling $53 million, provide diversification relative to the equity and fixed income markets. The Plan's investments are primarily a mix of retail, office, residential and industrial properties in major Canadian urban areas including Toronto, Ottawa, Calgary, Edmonton and Vancouver. The focus is on quality, featuring strong locations and tenants.

The real estate return in 2003 was 10.0% compared to 8.1% for the IPD Large Institutional All Property Index. The outperformance relative to the benchmark index was attributed to strong capital appreciation from Ontario retail and industrial properties as well as steady income growth from all property types outside of the Toronto office market.

Real Estate by Sector



Real Estate by Province



looking forward

bonds

Interest rates in North America are currently sitting at multi-year lows, yet the recovery/expansion remains somewhat uncertain. Canada may underperform the U.S. on GDP growth as a result of a stronger Canadian dollar, leading to the possibility that the Bank of Canada may cut interest rates in 2004. In the U.S., it is generally thought that the central bank will err on the side of being accommodative with low interest rates, rather than prematurely dampening the expansion through rate hikes. This view is further reinforced by a lack of any serious inflation pressures in the near term.

Given a scenario of U.S. interest rate increases in late 2004 and early 2005, several events could occur. The very steep yield curves in the U.S. and Canada would begin to flatten as short-term interest rates rose. Canadian and U.S. interest rate spreads would start to compress, leading to Canadian bonds outperforming U.S. fixed income securities.

equities

Central banks around the world may start to rein in fiscal and monetary stimulus in the latter parts of 2004 as international economies show signs of sustainable strength. Real GDP growth expectations in the U.S. of approximately 4% in 2004 hinge on strong U.S. export growth and business investment. Growth may be less than forecasted as a result of several structural issues in the U.S. such as high current account deficits and debt levels. Given a backdrop of improving global demand and a weak U.S. dollar, commodity prices should have a strong performance, especially in U.S. dollar terms.

Currently, the U.S. equity market is trading at approximately 19 times forward earnings, implying that the market has already accounted for the forecasted improvement in the economy and profits growth. Therefore, returns are probably limited to low single digits in 2004 with vulnerability to the downside if growth expectations are not met. Further risks exist as the investor begins to focus on 2005 and beyond, where fiscal stimulus may be removed and the prospect for increased interest rates loom.

real estate

Economic growth in Canada may be dampened by a stronger than expected Canadian dollar. Exporting companies in particular may see a decline in revenues and could start to restructure operations to increase productivity. The result may be a further softening in demand for office and industrial space in 2004.

Continued low interest rates are fueling a strong first-time homebuyer housing market that has contributed to an increase in apartment vacancy rates in most major markets. The result has been a softening of rents, although this is expected to be a short-term phenomenon. The demand for rental accommodation is projected to remain strong due to favorable demographics.

inflation

Inflation in both Canada and the U.S. remained low in 2003, keeping in line with the downward trend in North American inflation over the past 20 years. As of December 31, 2003, Canada CPI was at 2.0% and U.S. CPI was at 1.9%. Despite the strengthening in economic activity in 2003, excess capacity remains in many North American industries. This, coupled with an increase in labor productivity, should exert ongoing downward pressure on inflation for the near future.


sfpp annual report 2003
financial statements

Management's Responsibility for Financial Reporting

The Special Forces Pension Plan (Plan) financial statements and financial information in the 2003 Annual Report are the responsibility of the Minister of Finance. These responsibilities are undertaken on behalf of the Minister of Finance by:

- Alberta Investment Management, the investment operation of Alberta Revenue (IMD), which is responsible only for the management of assets, subject to legislation and to the investment policies and goals approved by the Board, and
- Alberta Pensions Administration (APA) Corporation, which is responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance.

The financial statements and information in the annual report have been approved by the Board.

The financial statements have been prepared by Alberta Finance in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2003 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance, APA Corporation and Alberta Investment Management each maintains a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements.

Peter Kruselnicki, P.Eng.
Deputy Minister of Finance

Robert Bhatia
Deputy Minister of Revenue

David Smith, CA
Chief Executive Officer
Alberta Pensions Administration Corporation

March 18, 2004

AUDITOR GENERAL Alberta

Auditor's Report

To the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Special Forces Pension Plan (the Plan) as at December 31, 2003, and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2003 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 18, 2004

SPECIAL FORCES PENSION PLAN

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2003

	2003	2002
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,059,607	$ 942,850
Accounts receivable (Note 6)	2,400	2,051
	1,062,007	944,901
Liabilities		
Benefits and refunds	175	68
Net assets available for benefits	1,061,832	944,833
Actuarial adjustment for fluctuation in fair value of net assets (Note 2 (c))	(13,056)	61,431
Actuarial value of net assets available for benefits	1,048,776	1,006,264
Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,275,387	1,201,220
Indexing Fund	13,672	9,458
	1,289,059	1,210,678
Actuarial Deficiency (Note 7)		
Plan Fund *	(240,283)	(204,414)
Indexing Fund	-	-
	$ (240,283)	**$ (204,414)**

*The actuarial deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $172,277,000 (2002 $149,161,000) and a post-1991 deficiency of $68,006,000 (2002 $55,253,000).

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2003

	2003			2002
	Plan Fund	Indexing Fund	Total	Total
	($ thousands)			
Increase in assets				
Net investment income (Note 9)	$ 120,528	$ 1,453	$ 121,981	$ -
Contributions (Note 8)	39,448	2,761	42,209	35,881
	159,976	4,214	164,190	35,881
Decrease in assets				
Net investment loss (Note 9)	-	-	-	58,936
Pension benefits	45,509	-	45,509	42,883
Refunds and transfers	486	-	486	668
Administration expenses (Note 10)	1,196	-	1,196	1,017
	47,191	-	47,191	103,504
Increase (Decrease) in net assets	112,785	4,214	116,999	(67,623)
Net assets available for benefits at beginning of year	935,375	9,458	944,833	1,012,456
Net assets available for benefits at end of year	**$ 1,048,160**	**$ 13,672**	**$ 1,061,832**	**$ 944,833**

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

Statement of Changes in Accrued Benefits

For the year ended December 31, 2003

	2003			2002
	Pre-1992	**Post-1991**	**Total**	**Total**
	($ thousands)			
Increase in accrued benefits				
Interest accrued on benefits	$ 53,506	$ 30,122	$ 83,628	$ 79,030
Benefits earned	144	32,552	32,696	30,147
Net experience losses	-	-	-	36,667
Cost-of-living indexing adjustments and interest	3,351	4,701	8,052	2,213
	57,001	67,375	124,376	148,057
Decrease in accrued benefits				
Benefits, transfers and interest	39,192	6,803	45,995	43,551
Net increase in accrued benefits	17,809	60,572	78,381	104,506
Accrued benefits at beginning of year	783,568	427,110	1,210,678	1,106,172
Accrued benefits at end of year (Note 7)	**$ 801,377**	**$ 487,682**	**$ 1,289,059**	**$ 1,210,678**

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

Statement of Changes in Actuarial Deficiency

For the year ended December 31, 2003
($ thousands)

	2003			2002
	Pre-1992	**Post-1991**	**Total**	**Total**
	($ thousands)			
Actuarial deficiency at beginning of year	$ (149,161)	$ (55,253)	$ (204,414)	$ (68,528)
Increase (Decrease) in net assets available for benefits	42,582	74,417	116,999	(67,623)
Net change in actuarial adjustment for fluctuation in fair value of net assets	(47,889)	(26,598)	(74,487)	36,243
Net increase in accrued benefits	(17,809)	(60,572)	(78,381)	(104,506)
Actuarial deficiency at end of year	**$ (172,277)**	**$ (68,006)**	**$ (240,283)**	**$ (204,414)**

See accompanying notes and schedules.

SPECIAL FORCES PENSION PLAN

Notes to the Financial Statements

December 31, 2003

Note 1 Summary Description of the Plan

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for police officers employed by participating local authorities in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act* and is not subject to income taxes. The Plan's registration number is 0584375.

(b) Funding Policy

Plan Fund

Current service costs and the Plan's actuarial deficiency are funded by employers' and employees' contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2003 were 9.61% (2002: 8.30%) of pensionable salary for employers and 8.51% (2002: 7.20%) for employees. The rates are reviewed at least once every three years by the Special Forces Pension Board (the Board) based on recommendations of the Plan's actuary.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2003 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

In accordance with the *Public Sector Pension Plans Act,* the unfunded liability for post-1991 service as determined by an actuarial valuation at December 31, 2001 is financed by a special payment of 0.92% of pensionable salary shared equally between employees and employers effective January 1, 2003 and continuing 15 years from the date of valuation until December 31, 2016. The special payment is included in the rates in effect at December 31, 2003.

Note 1 Summary Description of the Plan (continued)

(b) Funding Policy (continued)

Indexing Fund

Benefit payments are funded by post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) contributions from employers and employees at rates that are expected to meet or exceed the funding or solvency requirements of the Plan. The rates in effect at December 31, 2003 were 0.75% of pensionable salary each for employers and employees. Rates are to be reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years. The maximum service allowable under the Plan is 35 years. Members are entitled to a pension if they have at least 25 years of service or have at least five years of service and attained age 55. Pensions will be reduced at the age of 65.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member if the member had at least five years of service. Benefits may take the form of a survivor pension, if the beneficiary is a pension partner or a dependent minor child, or a lump sum payment. A surviving pension partner or the beneficiary of a deceased member with less than five years of service is entitled to receive death benefits in the form of a lump sum payment.

Note 1 **Summary Description of the Plan (continued)**

(f) Termination Benefits

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest.

(g) Guarantee

Payment of all benefits arising from service before 1994, excluding post-1991 COLA benefits on 1992 and 1993 service (see Note 1 (i)), is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments (COLA)

Cost-of-living adjustments for service before 1992 payable by the Plan Fund are increased each year by 60% of the average of the increases in the Alberta Consumer Price Index in the twelve-month period ending on October 31st of the previous year. Cost-of-living adjustments for service after 1991 are payable by the Indexing Fund at rates determined by the Board.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Note 2 **Summary of Significant Accounting Policies and Reporting Practices (continued)**

(a) Basis of Presentation (continued)

Plan investments are held in pooled investment funds administered by Alberta Revenue or external managers appointed by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment value, annual net realized and unrealized gains and losses excluding those arising from derivative transactions are amortized equally over three years commencing at the beginning of the current year.

Note 2 **Summary of Significant Accounting Policies and Reporting Practices (continued)**

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(f) Valuation of Derivative Contracts (continued)

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits.

Note 3 Investments (Schedules A to E)

	2003		2002	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash				
Investment Trust Fund (a)	$ 6,713	0.6	$ 6,110	0.6
Canadian Dollar Public Bond Pool (b)	307,380	29.0	300,733	31.9
Private Mortgage Pool (c)	54,733	5.2	40,473	4.3
Total fixed income securities	368,826	34.8	347,316	36.8
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (d)	93,139	8.8	74,363	7.9
Canadian Small Cap Equity Pool (d)	27,406	2.6	25,552	2.7
Domestic Passive Equity Pooled Fund (e)	74,959	7.1	64,962	6.9
Canadian Pooled Equities Fund (f)	27,472	2.6	23,487	2.5
Private Equity Pool (g)	1,621	0.2	2,213	0.2
	224,597	21.3	190,577	20.2
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (h)	109,491	10.3	104,077	11.0
External Managers				
US Large Cap Equity Pool (i)	45,624	4.3	34,380	3.7
US Mid/Small Cap Equity Pool (i)	30,955	2.9	24,434	2.6
US Passive Equity Pool	-	-	10,035	1.1
S&P 500 Pooled Index Fund (h)	10,769	1.0	-	-
United States Pooled Equities Fund	-	-	33	-
	196,839	18.5	172,959	18.4
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	112,978	10.7	82,201	8.7
EAFE Plus Equity Pool (j)	47,819	4.5	43,518	4.6
EAFE Passive Equity Pool (k)	15,217	1.4	23,417	2.5
EAFE Structured Equity Pooled Fund (k)	40,225	3.8	32,660	3.5
	216,239	20.4	181,796	19.3
Alternative Investments - Equities				
Private Income Pools (l)	493	-	-	-
Real Estate Equities (Schedule E)				
Private Real Estate Pool (m)	52,613	5.0	50,202	5.3
Total equities	690,781	65.2	595,534	63.2
Total investments	**$ 1,059,607**	**100.0**	**$ 942,850**	**100.0**

Note 3 Investments (Schedules A to E) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(e) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(g) The Private Equity Pool is in the process of orderly liquidation.

Note 3 **Investments (Schedules A to E) (continued)**

(h) The US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers EAFE (Europe, Australasia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(k) The performance objective of the External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The Private Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to yield high current income.

Note 3 Investments (Schedules A to E) (continued)

(m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

Note 4 Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a benchmark policy asset mix of 37% fixed income instruments and 63% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Note 5 Derivative Contracts (continued)

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2003:

	2003					2002	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	80	20	-	$ 196,640	$ 8,306	$ 168,605	$ 1,125
Interest rate swap contracts	34	56	10	88,701	(4,559)	59,952	(3,560)
Cross-currency interest rate swap contracts	21	48	31	75,614	(8,141)	80,659	(9,758)
Forward foreign exchange contracts	100	-	-	8,526	(6)	33,679	150
Credit Default swap contracts	-	100	-	3,380	(41)	-	-
Equity index futures contracts	100	-	-	3,128	379	-	-
Bond index swap contracts	100	-	-	4,951	7	5,471	47
				$ 380,940	$ (4,055)	$ 348,366	$ (11,996)

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

Note 5 Derivative Contracts (continued)

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

Note 6 Accounts Receivable

	2003	2002
	($ thousands)	
Contributions receivable		
Employers	$ 1,063	$ 905
Employees	983	830
Province of Alberta	185	173
	2,231	1,908
Receivable from Alberta Pensions Administration Corporation	169	82
Accrued investment income	-	61
	$ 2,400	**$ 2,051**

Note 7 Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by Hewitt and Associates and was then extrapolated to December 31, 2003.

The 2001 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events, taking into account the impact of increases in the maximum pensionable salary permitted under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. This estimate was, after consultation with the Plan's actuary, adopted by the Board.

Note 7 **Accrued Benefits (continued)**

(a) Actuarial Valuation (continued)

The major assumptions used were:

	December 31	
	2003 and 2002	**2001**
	Extrapolation	**Valuation**
	%	%
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost-of-living increase as a percent of Alberta Consumer Price Index	60	60

* In addition to merit and promotion.

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

Based on the information provided above, the following table summarizes the actuarial value of net assets, accrued benefits, and the resulting actuarial deficiency of the Plan Fund as at December 31, 2003:

Note 7 Accrued Benefits (continued)

(a) Actuarial Valuation (continued)

	2003			2002
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$ 636,668	$ 411,492	$ 1,048,160	$ 935,375
Actuarial adjustment for fluctuation in fair value of net assets	(7,568)	(5,488)	(13,056)	61,431
Plan Fund actuarial value of net assets available for benefits	629,100	406,004	1,035,104	996,806
Plan Fund accrued benefits	801,377	474,010	1,275,387	1,201,220
Plan Fund actuarial deficiency	**$ (172,277)**	**$ (68,006)**	**$ (240,283)**	**$ (204,414)**

As at December 31, 2003, the Indexing Fund held investments of $13,672,000 (2002 $9,458,000) with offsetting accrued benefits of the same amount.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2003:

Note 7 Accrued Benefits (continued)

(b) Sensitivity of Changes in Major Assumptions (continued)

	Sensitivities			
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings *	
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 80	0.0%	**
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	28	1.0%	
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	178	2.8%	

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation was 17.2%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

Note 8 Contributions

	2003	2002
	($ thousands)	
Current and optional service		
Employers	$ 18,387	$ 16,033
Employees	17,051	14,934
Unfunded liability		
Employers	2,226	1,324
Employees	2,226	1,324
Province of Alberta	2,300	2,206
Transfers from other plans	19	60
	$ 42,209	**$ 35,881**

Note 9 Net Investment Income (Loss)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2003	2002
	($ thousands)	
Fixed Income Securities	$ 24,808	$ 32,094
Canadian Equities	47,613	(22,374)
Foreign Equities		
United States	15,761	(43,145)
Non-North American	28,778	(28,525)
Alternative Investments - Equities	107	-
Real Estate Equities	4,914	3,014
	$ 121,981	**$ (58,936)**

Net investment income (loss) is comprised of the following:

	2003	2002
	($ thousands)	
Net realized and unrealized losses on investments, including those arising from derivative transactions	$ 84,882	$ (93,967)
Interest income	26,590	25,905
Dividend income	8,547	7,468
Real estate income	2,852	2,631
Securities lending income	272	206
Pooled funds management and associated custodial fees	(1,162)	(1,179)
	$ 121,981	**$ (58,936)**

The following is a summary of the investment performance results attained by the Plan:

Note 9 Net Investment Income (Loss) (continued)

	One-Year Return	Four-Year Compound Annualised Return	Eight -Year Compound Annualised Return
Timed-weighted rates of return*			
Overall Plan	13.0%	2.7%	7.9%
Policy Benchmark**	12.6%	1.8%	7.8%

* The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

Note 10 Administration Expenses

	2003	2002
	($ thousands)	
General administration costs	$ 951	$ 804
Investment management costs	221	190
Actuarial fees	24	23
	$ 1,196	**$ 1,017**

Total administration expenses amounted to $267 per member (2002 $230 per member).

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income (see Note 9).

Note 11 Remuneration of Board Members

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chairman	Members
Remuneration rates effective April 1, 2002:		
Up to 4 hours	$ 159	$ 118
4 to 8 hours	271	196
Over 8 hours	432	307

	2003	2002
During 2003, the following amounts were paid:		
Remuneration		
Chair	$ 3,536	$ 3,370
Members (5)*	14,962	16,044
Travel expenses		
Chair	673	2,275
Members (5)	17,216	23,635

* Crown representative nominated by the Government of Alberta receives no remuneration.

Note 12 Comparative Figures

Comparative figures have been reclassified to be consistent with 2003 presentation.

Note 13 Responsibility for Financial Statements

These financial statements were prepared by management and approved by the Board.

Schedule A

SPECIAL FORCES PENSION PLAN

Schedule of Investments in Fixed Income Securities

December 31, 2003

	Plan's Share	
	2003	**2002**
	($ thousands)	
Deposits and short-term securities	$ 8,397	$ 7,670
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	78,051	73,282
Provincial		
Alberta, direct and guaranteed	235	709
Other, direct and guaranteed	49,464	60,034
Municipal	4,713	5,865
Corporate	142,716	126,866
Private		
Corporate	85,019	69,505
	360,198	336,261
Receivable from sale of investments and accrued investment income	3,994	3,504
Liabilities for investment purchases	(3,763)	(119)
	231	3,385
	$ 368,826	**$ 347,316**

(a) Fixed income securities held as at December 31, 2003 had an average effective market yield of 4.79% per annum (2002: 5.10% per annum). The following term structure of these securities as at December 31, 2003 was based on principal amount.

	2003	**2002**
	%	
under 1 year	3	2
1 to 5 years	38	34
6 to 10 years	30	32
11 to 20 years	9	13
over 20 years	20	19
	100	**100**

Schedule B

SPECIAL FORCES PENSION PLAN

Schedule of Investments in Canadian Equities

December 31, 2003

	Plan's Share	
	2003	**2002**
	($ thousands)	
Deposits and short-term securities	$ 2,274	$ 1,995
Public equities (a) (b)		
Consumer discretionary	18,656	16,646
Consumer staples	10,977	8,627
Energy	31,628	27,761
Financials	62,762	52,582
Health care	5,725	6,097
Industrials	23,894	17,676
Information technology	12,670	9,640
Materials	36,550	29,736
Telecommunication services	10,096	8,780
Utilities	5,007	5,807
	217,965	183,352
Passive index	375	1,325
	218,340	184,677
Private Equity Pool	1,621	2,213
Receivable from sale of investments and accrued investment income	2,751	2,258
Liabilities for investment purchases	(389)	(566)
	2,362	1,692
	$ 224,597	**$ 190,577**

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $48,985,000 (2002 $31,936,000) which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

SPECIAL FORCES PENSION PLAN
Schedule of Investments in United States Equities
December 31, 2003

	Plan's Share			
	2003		2002	
	($ thousands)			
Deposits and short-term securities	$	8,279	$	1,307
Public equities (a) (b)				
Consumer discretionary		28,571		24,039
Consumer staples		17,595		14,790
Energy		10,720		10,205
Financials		39,026		36,220
Health care		24,040		25,364
Industrials		21,403		20,848
Information technology		32,119		24,765
Materials		6,364		5,370
Telecommunication services		5,466		6,153
Utilities		5,368		5,039
		190,672		172,793
Passive index		84		-
		190,756		172,793
Receivable from sale of investments and accrued investment income		1,412		1,070
Liabilities for investment purchases		(3,608)		(2,211)
		(2,196)		(1,141)
	$	**196,839**	**$**	**172,959**

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $107,477,000 (2002 $104,478,000), which were used as underlying securities to support the notional amount of US equity index swap contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

Schedule D

SPECIAL FORCES PENSION PLAN

Schedule of Investments in Non-North American Equities

December 31, 2003

	Plan's Share			
	2003		2002	
	($ thousands)			
Deposits and short-term securities	$	3,671	$	4,136
Public equities (a) (b)				
Consumer discretionary		31,840		21,182
Consumer staples		16,661		16,164
Energy		15,699		17,080
Financials		51,669		40,101
Health care		16,881		19,391
Industrials		22,761		17,145
Information technology		12,661		10,168
Materials		15,811		13,073
Telecommunication services		18,872		14,913
Utilities		8,306		8,946
		211,161		178,163
Passive index		28		-
Receivable from sale of investments and accrued investment income		2,169		1,112
Liabilities for investment purchases		(790)		(1,615)
		1,379		(503)
	$	**216,239**	**$**	**181,796**

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $38,632,000 (2002 $32,191,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share			
	2003		2002	
	($ thousands)			
United Kingdom	$	49,923	$	48,444
Japan		36,166		28,537
France		21,208		15,589
Switzerland		16,897		16,044
Germany		15,285		10,262
Netherlands		12,008		11,435
Australia		11,095		8,387
Italy		9,214		7,171
Spain		5,953		3,961
Hong Kong		4,656		4,839
Other		28,756		23,494
	$	211,161	$	178,163

Schedule E

SPECIAL FORCES PENSION PLAN
Schedule of Investments in Real Estate
December 31, 2003

	Plan's Share			
	2003		2002	
	($ thousands)			
Deposits and short-term securities	$	43	$	21
Real estate (a)				
Office		23,331		24,350
Retail		22,087		21,255
Industrial		3,567		2,458
Residential		3,089		1,757
		52,074		49,820
Passive index		362		6
Receivable from sale of investments and accrued investment income		134		355
	$	**52,613**	**$**	**50,202**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share			
	2003		2002	
	($ thousands)			
Ontario	$	38,058	$	37,436
Alberta		12,948		11,300
British Columbia		1,068		1,084
	$	52,074	$	49,820

2004 directory

employee nominees
Colin Catonio (Chair), Lethbridge Police Association
Ulysses Currie, Edmonton Police Association
Alex Girvin, Calgary Police Association

employer nominees
Randy Garvey (Vice Chair), City of Edmonton
John Hamill, City of Medicine Hat
David Watson, City of Calgary

crown nominee
Linda Sinclair

board secretary
Jim Millard
Alberta Pensions Administration Corporation

recording secretary
Liz Doughty
Alberta Pensions Administration Corporation

fund management
Alberta Investment Management, Alberta Revenue

investment consultant
Janet JulÈ
James P. Marshall, a Hewitt Company

actuary
John Sanges
Hewitt Associates

auditor
Auditor General of Alberta

SFPP employers

Eight employers participate in the Special Forces Pension Plan. They are the Police Services of:

The City of Lethbridge

The City of Medicine Hat

The Town of Lacombe

The City of Calgary

The City of Edmonton

The Town of Coaldale*

The City of Camrose

The Town of Taber

** The Coaldale Police Service amalgamated with the Lethbridge Police Service to become the Lethbridge Regional Police Service effective February 1, 2004*

special forces

pension plan